



Phoenix Office Market

Users Finalizing Office Plans Increase Leasing Activity and Metro Vacancy

Phoenix is among several Sun Belt metros experiencing growth in multiple sectors as residents and businesses relocate from coastal markets to benefit from its opportunities and lower economic costs. Despite experiencing increased vacancy and negative net absorption during the first quarter of 2022, rising rents and heightened tenant and investor activity point to strong recovery fundamentals as the Metro moves into the new year.

Total vacancy bumped up from 19.0% in the fourth quarter of 2021 to 19.3% in the first quarter of 2022. It's up 100 basis points year-over-year after a brief decline in the second and third quarters of 2021. A handful of larger tenants, such as Farmers Insurance and AAA, made the decision to move to a hybrid or fully remote work model, placing large blocks of vacant space onto the market that were previously undecided as to whether the tenant would fully occupy post-COVID-19. Coupled with no new office deliveries with tenants already in tow, 348,189 square feet of negative absorption occurred throughout the Metro, with the Deer Valley Airport and Scottsdale South submarkets taking the largest hits to occupancy in the first quarter of 2022.

With new construction starts remaining tempered, 1.2 million square feet of Class A product was underway at quarter-end, largely concentrated in Tempe (470,516 square feet), Scottsdale (280,060 square feet) and the Camelback Corridor submarket (263,766 square feet). Barring any construction delays, nearly 75% of the square footage currently under construction is expected to deliver in the second and third quarters of 2022.

Current Conditions

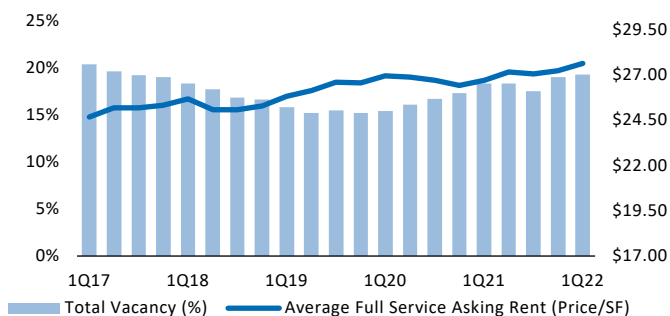
- After 1.2 million square feet of office product delivered in 2021 throughout the Phoenix Metro, no deliveries occurred during the first quarter of 2022; nearly 700,000 square feet is expected to come online over the next couple quarters.
- Office users returned almost 350,000 square feet back to the market as larger blocks of space that hung in limbo during 2020 and 2021 were officially placed on market for both direct and sublet availability.
- Total vacancy increased 30 basis points quarter-over-quarter with the average asking rent increasing \$0.39/SF over the same period to \$27.64/SF. Current rent is up 3.5% year-over-year.

Market Summary

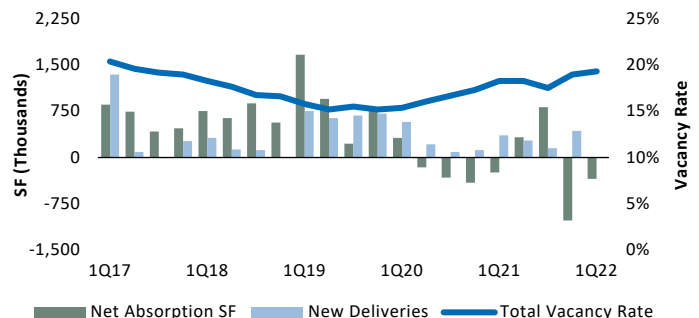
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	96.1M SF	96.0M SF	95.1M SF	↑
Vacancy Rate	19.3%	19.0%	18.3%	↔
Quarterly Net Absorption (SF)	(348,189)	(1,021,710)	(243,041)	↑
Average Asking Rent/SF	\$27.64	\$27.25	\$26.71	↑
Under Construction (SF)	1,242,970	1,239,964	1,544,160	↓
Deliveries (SF)	0	430,000	358,348	↑

Market Analysis

ASKING RENT AND TOTAL VACANCY RATE



NET ABSORPTION SF, DELIVERED SF AND TOTAL VACANCY RATE



While some office users are shedding space in favor of hybrid or fully remote work models, others are moving forward with new space commitments. Carvana took over 300,000 square feet in the first quarter of 2022 between two different transactions by subletting 267,962 square feet in the Airport Area submarket, while leasing an additional 82,266 square feet at the Rio Salado Corporate Center in Tempe. Within the 44th Street Corridor submarket, Cruise Marketing signed for 46,871 square feet in AERO Scottsdale B, while Mesa Airlines renewed in Three Gateway for 33,770 square feet. In Downtown, Alliance Bank of Arizona took 45,996 square feet in CityScape and Osborn Maledan recommitted to 45,764 square feet at Phoenix Plaza II. The Park at San Tan helped with the expansion of Western Alliance Bank by 44,985 square feet, as Clayco committed to taking 36,054 square feet in The Grove, an under-construction development within the Camelback Corridor.

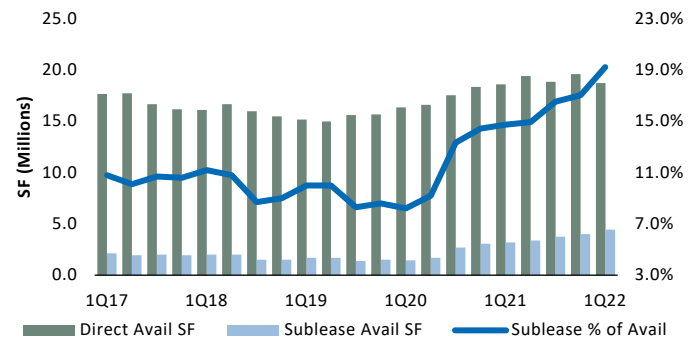
Notable Under Construction Projects

Building/Project Name	Submarket	SF
100 Mill	Tempe	286,990
The Grove	Camelback Corridor	263,766
Scottsdale Entrada	Scottsdale South	245,000
GSQ	West Phoenix	228,628
The Beam on Farmer	Tempe	183,526

Life science and medical office sales continue to hold investor attention into 2022, with traditional office sales experiencing healthy transaction volume growth each quarter after the sudden drop in sales activity in the second half of 2020. Both the Camelback Corridor and Chandler/Gilbert submarkets captured investor interest during the first quarter of 2022, with portfolio/park sales making up the majority of transactions. With a portfolio of almost 1 million square feet, four of the buildings in The Esplanade were purchased by Tourmaline Capital Partners for \$385.0 million, while Park One sold for \$50.1 million to Holualoa Companies. Manulife US REIT acquired Allred Park Place at \$106.0 million, while Asana Partners purchased The Jonathan and The Alexander in a ground lease portfolio totaling \$86.5 million. Despite industrial and multi-family product remaining the top asset type among investment sales, investors chasing yield are looking to top-quality office product in attractive metros such as Phoenix to place capital.

Availability Overview

SUBLEASE V DIRECT AVAILABLE SF AND SUBLEASE AS % OF AVAILABILITY



Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Carvana	4025 S. Riverpoint Pkwy.	Airport Area	Sublease	267,962
Carvana	Rio Salado Corporate Center	Tempe	Direct New	82,266
Cruise Marketing	AERO Scottsdale B	44th Street Corridor	Direct New	46,871
Alliance Bank of Arizona	CityScape	Downtown South	Direct New	45,996
Osborn Maledan	Phoenix Plaza II	Downtown North/Midtown	Renewal	45,764
Western Alliance Bank	The Park at San Tan	Tempe South/Chandler	Expansion	44,985
Clayco	The Grove	Camelback Corridor	Direct New	36,054
Mesa Airlines	Three Gateway	44th Street Corridor	Renewal	33,770

Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
Esplanade - 2425, 2525, 2555 & 2575 E. Camelback Rd.	Camelback Corridor	\$385,000,000	\$396.83	970,194
Allred Park Place - 1650 & 1700 S. Price Rd.	Chandler/Gilbert	\$106,000,000	\$390.63	271,359
The Jonathan and The Alexander - 25 S. & 55 N. Arizona Pl.	Chandler/Gilbert	\$86,500,000	\$410.52	210,710
Park One - 2111, 2121 & 2141 E. Highland Ave.	Camelback Corridor	\$50,100,000	\$244.75	204,669
Concorde Commerce Center - 2222 W. Dunlap Ave.	Northwest Phoenix	\$23,100,000	\$164.10	140,161
Scottsdale Norte - 11333 N. Scottsdale Rd.	Scottsdale Central	\$19,300,000	\$240.02	80,409

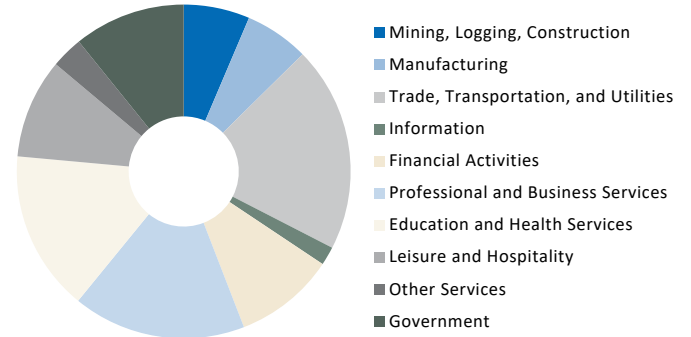
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Downtown North/Midtown	8,961,307	-	23.5%	(93,482)	(93,482)	\$26.81	\$22.82	\$23.84
Downtown South	7,421,472	-	27.5%	(28,956)	(28,956)	\$33.02	\$28.28	\$30.46
CBD Total	16,382,779	-	25.3%	(122,438)	(122,438)	\$30.36	\$25.48	\$27.15
44 th Street Corridor	3,065,350	-	15.8%	(29,025)	(29,025)	\$28.99	\$24.96	\$27.88
Airport Area	8,050,001	-	17.2%	144,228	144,228	\$28.34	\$18.43	\$19.36
Camelback Corridor	6,868,104	263,766	20.0%	(17,298)	(17,298)	\$38.87	\$30.38	\$36.70
Central/East Phoenix	1,062,467	-	6.7%	19,761	19,761	-	\$25.05	\$21.78
Chandler/Gilbert	7,171,225	-	23.5%	(75,565)	(75,565)	\$32.63	\$26.02	\$30.95
Deer Valley Airport	5,833,723	-	26.7%	(193,218)	(193,218)	\$27.88	\$17.77	\$22.62
Glendale	975,258	-	11.8%	37,551	37,551	\$24.90	\$17.18	\$20.94
Mesa Downtown	280,039	-	20.6%	(9,170)	(9,170)	-	\$22.92	\$21.28
Mesa East	875,374	-	36.3%	(50,379)	(50,379)	\$38.62	\$19.56	\$37.54
N Phoenix/Desert Ridge	2,529,626	-	10.4%	(25,465)	(25,465)	\$30.29	\$24.21	\$28.77
Northwest Phoenix	4,482,197	-	32.7%	(53,303)	(53,303)	\$25.25	\$20.40	\$22.18
Piestewa Peak	2,084,221	-	14.8%	22,555	22,555	\$29.15	\$26.38	\$26.26
Scottsdale Central	5,269,753	-	13.7%	61,740	61,740	\$28.94	\$27.36	\$28.28
Scottsdale North/Airpark	8,891,092	32,054	15.1%	36,025	36,025	\$33.29	\$24.66	\$31.28
Scottsdale South	3,845,526	248,006	23.2%	(167,553)	(167,553)	\$38.20	\$32.35	\$36.11
Sun City	709,669	-	9.8%	(11,213)	(11,213)	-	\$27.54	\$27.54
Superstition Corridor	2,438,625	-	10.4%	(10,752)	(10,752)	\$25.63	\$19.16	\$20.87
Tempe	9,147,225	470,516	11.9%	68,520	68,520	\$41.30	\$26.74	\$32.31
Tempe South/Chandler	5,442,690	-	17.1%	18,806	18,806	\$30.55	\$17.11	\$22.07
West Phoenix	744,121	228,628	4.7%	8,004	8,004	\$30.17	\$25.00	\$25.93
Suburban Total	79,766,286	1,242,970	18.1%	(225,751)	(225,751)	\$32.96	\$22.37	\$27.80
Market	96,149,065	1,242,970	19.3%	(348,189)	(348,189)	\$32.45	\$23.23	\$27.64

Economic Overview

Like many other metro areas in the Sun Belt, Phoenix continues to benefit from demographic shifts in the U.S. Phoenix is an attractive option for those leaving coastal gateway markets for economic opportunities and a lower cost of living. From July 2020 to July 2021, the Phoenix Metro area experienced the largest net domestic migration gain in the country (66,850). Phoenix's diversified economy, young talent pool, numerous universities and community colleges, lower cost of doing business relative to gateway markets and strong population growth are major draws for employers and employees alike. Almost every industry experienced strong job growth over the last 12 months, with the heavily hit leisure and hospitality sector continuing its rebound from the effects of the pandemic. While the next several quarters appear economically murky, the Phoenix Metro is well poised for a vibrant future.

Employment by Industry

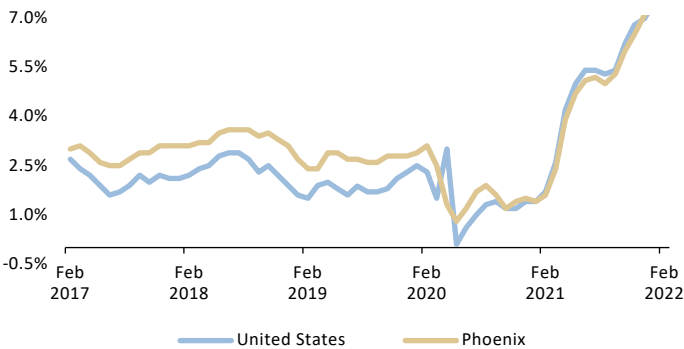
PHOENIX, 2021 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

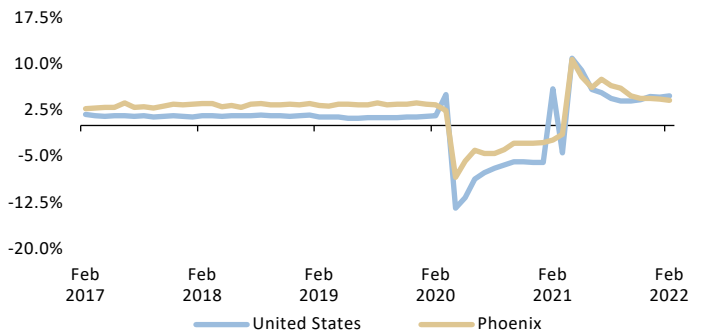
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

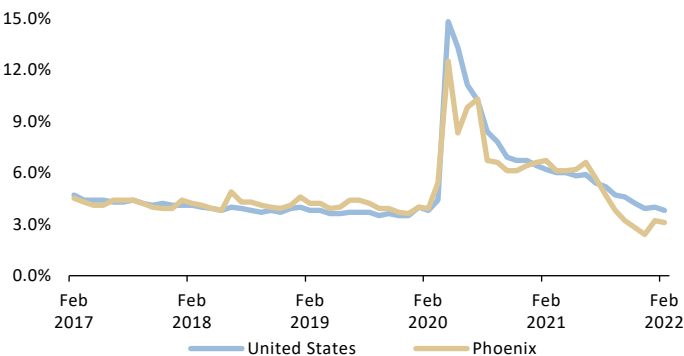
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

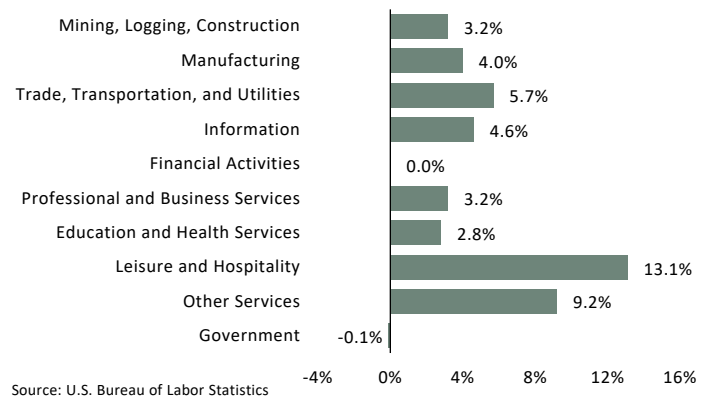
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

PHOENIX, FEBRUARY 2022, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

For more information:

Arizona Office

2398 E. Camelback Rd.,
Suite 950
Phoenix, AZ 85016
t 602-952-3800

Rich Lachowsky

*Director, SLC Research and
National Industrial*
rich.lachowsky@nmrk.com

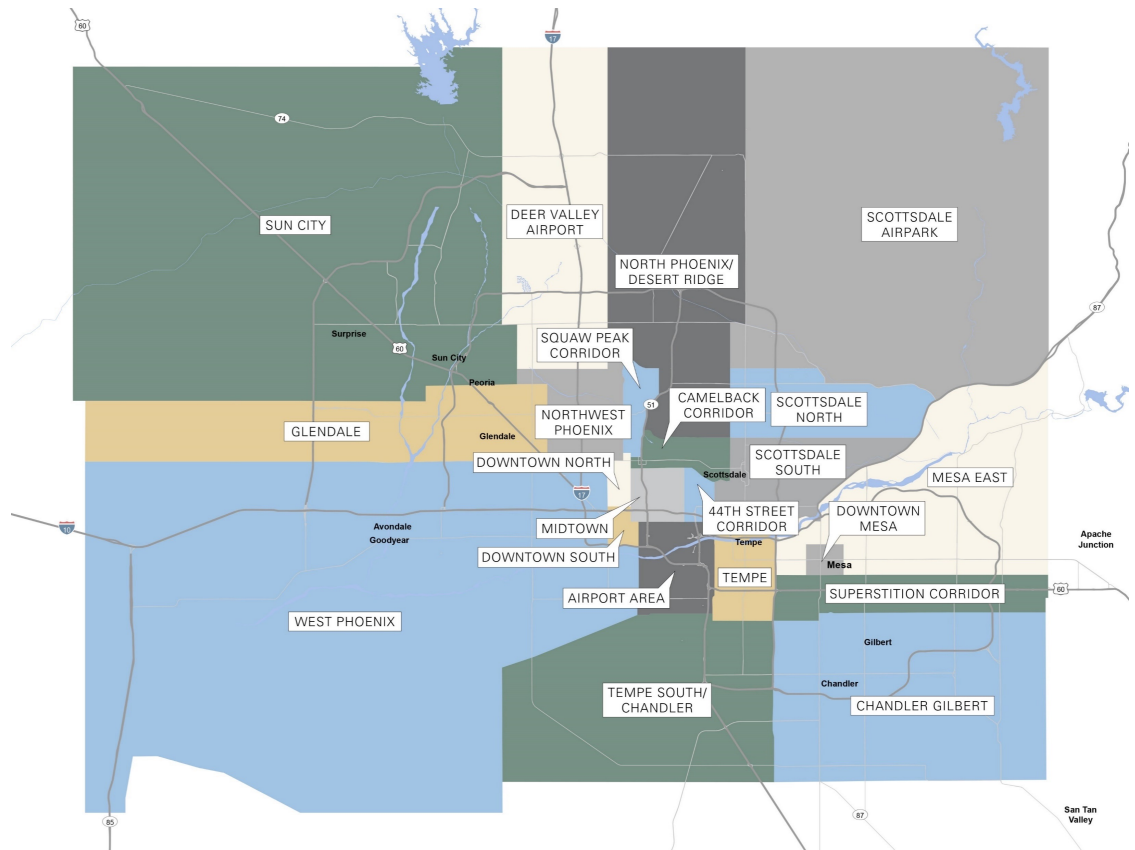
Amelia Yates

Research Manager
amelia.yates@nmrk.com

Chase Gabriel

Research Coordinator
chase.gabriel@nmrk.com

nmrk.com



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